

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name LMAS District Health Department	County Luce
Fiscal Year End September 30, 2006	Opinion Date January 25, 2007	Date Audit Report Submitted to State March 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

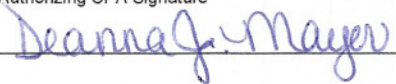
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature 	Printed Name Deanna J. Mayer		License Number 1101028546

LUCE-MACKINAC-ALGER-SCHOOLCRAFT
DISTRICT HEALTH DEPARTMENT

BASIC FINANCIAL STATEMENTS

September 30, 2006

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Luce-Mackinac-Alger-Schoolcraft
District Health Department
Board of Health
Newberry, Michigan 49868

We have audited the accompanying financial statements of the governmental activities and major fund of the Luce-Mackinac-Alger-Schoolcraft District Health Department, (a component unit of Luce County, Michigan), as of and for the year ended September 30, 2006, which collectively comprise the LMAS District Health Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the LMAS District Health Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Luce-Mackinac-Alger-Schoolcraft District Health Department as of September 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2007, on our consideration of Luce-Mackinac-Alger-Schoolcraft District Health Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparisons as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the LMAS District Health Department's basic financial statements. The financial statements and schedules listed in the Table of Contents as other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 25, 2007

Management's Discussion and Analysis

This section of the LMAS District Health Department's annual financial report presents our discussion and analysis of the LMAS District Health Department's financial performance during the fiscal year ended September 30, 2006. Please read it in conjunction with the LMAS District Health Department's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The LMAS District Health Department saw many shifts in funding priorities during fiscal 2006, but was able to weather them without significant problems. The Federal Office of Homeland Security provided continued funding through the State of Michigan for a significant new program, Public Health Emergency Preparedness. This program supports enhancement of the public health system infrastructure and the design of an emergency response plan to use in the event of a public health emergency. Funding for this program will further expand in fiscal 2007 with some reduction.

One MDCH program funding was reinstated State-wide during fiscal 2006. With the reinstated funding the LMAS District Health Department renewed to support the Hearing and Vision screening Program in our area schools.

Budget concerns at the federal and state levels resulted in some decreased funding for ongoing programs. The most significant of these, from a dollar perspective, was the loss of the rural health add-on for Medicare home health services for a portion of 2006. This program had paid an additional premium amount for services rendered in rural areas.

A significant impact in cash flow at the end of 2006 was the deferral of payment of the Medicaid cash based reimbursement funding until March of 2007.

The LMAS District Health Department received accreditation status from the State of Michigan for the first accreditation cycle and accreditation with commendation for the second cycle in fiscal 2006.

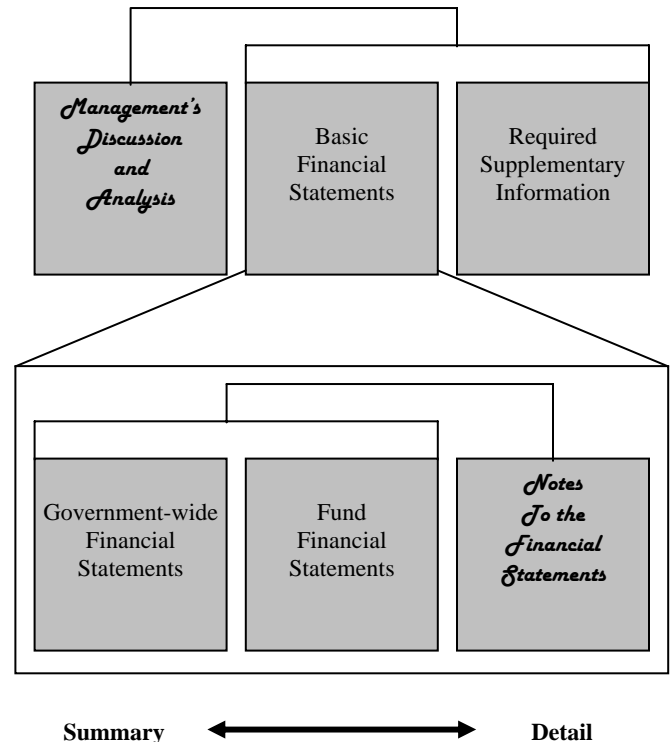
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the LMAS District Health Department.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-1
Required Components of the
Health Department's Annual Financial Report

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Health Department's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Health Department's operations, reporting the Health Department's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how government services like Health and Welfare were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with individual statements that provide details about our individual divisions of the LMAS District Health Department each of which are added together and presented in single columns in the basic financial statements. Figure A-2 summarizes the major features of the LMAS District Health Department's financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

**Figure A-2
Major Features of Health Department's Government-wide and Fund Financial Statements**

	<u>Government-wide Statements</u>	<u>Fund Statements Governmental Funds</u>
Scope	Entire Health Department government (except fiduciary funds)	The activities of the Health Department that are not proprietary or fiduciary, such as Health and Welfare
Required financial	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Statements

The government-wide statements report information about the LMAS District Health Department as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The two government-wide statements report the LMAS District Health Department's net assets and how they have changed. Net assets – the difference between the LMAS District Health Department's assets and liabilities – is one way to measure the LMAS District Health Department's financial health, or position.

- Over time, increases or decreases in the LMAS District Health Department's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the LMAS District Health Department you need to consider additional nonfinancial factors such as changes in the federal and state funding and the condition of the economy.

The government-wide financial statements of the LMAS District Health Department are:

- Governmental activities – Most of the LMAS District Health Department's basic services are included here, such as Public Health, Home Health, and Environmental Health programs.

Fund Financial Statements

The fund financial statements provide more detailed information about the LMAS District Health Department's most significant funds-not the LMAS District Health Department as a whole. Funds are accounting devices that the LMAS District Health Department uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- Governmental funds – All of the LMAS District Health Department's basic services are included in governmental funds, which focus on (1) how much cash and other financial assets that can readily be converted to cash flow in and out and (2) The balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the LMAS District Health Department's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them. The Department operates with one fund, which is considered a governmental fund.

Luce-Mackinac-Alger-Schoolcraft District Health Department

Management's Discussion and Analysis
September 30, 2006

FINANCIAL ANALYSIS OF THE LMAS DISTRICT HEALTH DEPARTMENT AS A WHOLE

In a condensed format, the table below shows the net assets of LMAS District Health Department.

Table A-1
Health Department's Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2006</u>
Current and other assets	\$ 1,897,491	\$ 1,888,289
Capital assets	<u>131,680</u>	<u>124,378</u>
Total assets	<u>\$ 2,029,171</u>	<u>\$ 2,012,667</u>
Current liabilities	348,426	369,091
Long-term debt outstanding	<u>251,221</u>	<u>266,952</u>
Total liabilities	<u>599,647</u>	<u>636,043</u>
Net assets		
Invested in capital asset - net of related debt	126,639	124,378
Unrestricted	<u>1,302,885</u>	<u>1,252,246</u>
Total net assets	<u>\$ 1,429,524</u>	<u>\$ 1,376,624</u>

Luce-Mackinac-Alger-Schoolcraft District Health Department

Management's Discussion and Analysis September 30, 2006

Table A-2 and the narrative that follows consider the operations of governmental activities.

Governmental Activities

Table A-2
Changes in Health Department's Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2006</u>
Program Revenue		
Charges for Services	\$ 4,117,996	\$ 4,390,555
Operating Grants and Contributions	<u>2,001,358</u>	<u>2,096,386</u>
Total Program Revenues	<u>6,119,354</u>	<u>6,486,941</u>
Program Expenses		
Environmental/Public Health	2,372,778	2,372,254
Home Health	3,174,084	3,337,133
Community Health	733,100	776,382
Administration	105,079	116,064
Depreciation Expense – Unallocated	36,175	21,462
Interest Expense – Unallocated	<u>588</u>	<u>127</u>
Total Program Expenses	<u>6,421,804</u>	<u>6,623,422</u>
Net Program Revenues	<u>(302,450)</u>	<u>(136,481)</u>
General Revenues		
Interest Income	13,951	12,094
County Appropriations	56,174	54,837
Cigarette Tax	<u>15,318</u>	<u>16,650</u>
Total General Revenues	<u>85,443</u>	<u>83,581</u>
Increase (decrease) in net assets	(217,007)	(52,900)
Beginning Net Assets	<u>1,646,531</u>	<u>1,429,524</u>
Ending Net Assets	<u>\$ 1,429,524</u>	<u>\$ 1,376,624</u>

Luce-Mackinac-Alger-Schoolcraft District Health Department

Management's Discussion and Analysis September 30, 2006

FINANCIAL ANALYSIS OF THE LMAS DISTRICT HEALTH DEPARTMENT'S FUNDS

As the LMAS District Health Department completed the year, its governmental funds reported a fund balance of \$1.2 million, a .39% decrease in fund balance. The primary reasons for the decrease in fund balance are highlighted in the financial analysis of the LMAS District Health Department.

Governmental Fund Revenues and Expenditures

Operating revenues for the LMAS District Health Department increased by 6.27% and operating expenditures for the LMAS District Health Department's governmental funds increased 3.24%.

Table A-3
Changes in Health Department's Fund Balance

	Governmental General Operating Fund 2005	Governmental General Operating Fund 2006
Revenues:		
Intergovernmental		
Federal/State	\$ 1,637,621	\$ 1,882,585
Local	118,167	45,523
Charges for Services	4,124,803	4,416,890
Interest and Rents	13,951	12,049
Other	245,570	168,323
Total Revenues	6,140,112	6,525,370
Expenditures:		
Current		
Salaries and Wages	3,251,418	3,325,220
Fringes	927,446	920,369
Supplies and Materials	431,435	479,112
Training	17,643	19,946
Contractual	533,347	593,038
Communications	139,651	134,679
Travel	371,312	405,738
Space	367,785	360,725
Miscellaneous	353,947	362,604
Total Expenditures	6,393,984	6,601,431
Excess of Revenues Over (Under) Expenditures	(253,872)	(76,061)
Other Financing Sources:		
County Appropriations	56,174	54,837
Cigarette Tax	15,318	16,650
Total Other Financing Sources	71,492	71,487
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	\$ (182,380)	\$ (4,574)

Luce-Mackinac-Alger-Schoolcraft District Health Department

Management's Discussion and Analysis
September 30, 2006

GENERAL FUND BUDGET HIGHLIGHTS

Revenue in the general fund was over budget by \$70,701 due to greater than anticipated Home Health revenue. Expenditures were under budget by \$80,856 due to lower than anticipated salary and fringe costs. Over the course of the year the Health Board amended the budget to reflect adjustments in revenues and expenditures that developed in the year.

CAPITAL ASSETS

At the end of 2006, the LMAS District Health Department had invested \$124,378 thousand in capital assets, including furniture, equipment, and building improvements. (See Table A-4.)

Table A-4
Health Department's Capital Assets
(net of depreciation)

	Governmental Activities <u>2005</u>	Governmental Activities <u>2006</u>
Equipment and furniture	\$ 17,411	\$ 14,236
Building improvements	<u>114,269</u>	<u>110,142</u>
Totals	<u>\$ 131,680</u>	<u>\$ 124,378</u>

More detailed information about the LMAS District Health Department's capital assets is presented in Note E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In adopting the general fund budget for fiscal year 2007, the LMAS District Health Department considered the budgetary problems within the State of Michigan and their likely effects on grant funding, revenue sharing to the County and Medicaid payment rates. Planned decreases in Medicare payments for Home Health services were also considered.

CONTACTING THE LMAS DISTRICT HEALTH DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, regulators, and creditors with a general overview of the LMAS District Health Department's finances and to demonstrate the LMAS District Health Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Luce-Mackinac-Alger-Schoolcraft District Health Department in Newberry, MI 49868.

Basic Financial Statements

Luce-Mackinac-Alger-Schoolcraft District Health Department

Statement of Net Assets September 30, 2006

	Governmental Activities
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	
Unrestricted	\$ 187,138
Accounts Receivable (net)	1,298,480
Due From Other Governments:	
Federal/State	392,064
Local	5,270
Prepaid Expenses	5,337
	<hr/>
Total Current Assets	1,888,289
	<hr/>
Non-Current Assets:	
Capital Assets, net of accumulated depreciation	124,378
	<hr/>
Total Non-current Assets	124,378
	<hr/>
Total Assets	\$ 2,012,667
	<hr/> <hr/>
LIABILITIES:	
Accounts Payable	\$ 141,494
Accrued Payroll and Related Liabilities	114,568
ACH Payables	83,374
Other Liabilities	26,881
Deferred Revenue	2,774
Long-Term Liabilities Payable After One Year	
Compensated Absences	266,952
	<hr/>
Total Liabilities	636,043
	<hr/>
NET ASSETS:	
Invested in Capital Assets (net of related debt)	124,378
Unrestricted	1,252,246
	<hr/>
Total Net Assets	\$ 1,376,624
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Luce-Mackinac-Alger-Schoolcraft District Health Department

Statement of Activities For the Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Environmental/Public Health	\$ 2,372,254	\$ 716,771	\$ 1,389,734	\$ (265,749)
Home Health	3,337,133	3,630,780	7,926	301,573
Community Health	776,382	43,004	582,722	(150,656)
Administration	116,064	-	116,004	(60)
Depreciation Expense - Unallocated	21,462	-	-	(21,462)
Interest Expense - Unallocated	127	-	-	(127)
Total Governmental Activities	<u>\$ 6,623,422</u>	<u>\$ 4,390,555</u>	<u>\$ 2,096,386</u>	<u>(136,481)</u>
General Revenues:				
Interest Income				12,094
County Appropriations				54,837
Cigarette Tax				<u>16,650</u>
Total General Revenues				<u>83,581</u>
Change in Net Assets				(52,900)
Net Assets - Beginning				<u>1,429,524</u>
Net Assets - Ending				<u><u>\$ 1,376,624</u></u>

Luce-Mackinac-Alger-Schoolcraft District Health Department

Balance Sheet
September 30, 2006

ASSETS

Assets:

Cash and Equivalents - Unrestricted	\$ 187,138
Accounts Receivable (net)	1,185,819
Due From Other Governmental Units:	
Federal/State	392,064
Local	5,270
Prepaid Expenditures	<u>5,337</u>
 Total Assets	 <u><u>\$ 1,775,628</u></u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts Payable	\$ 141,494
Accrued Liabilities	114,568
ACH Payable	83,374
Other Liabilities	26,881
Deferred Revenues	<u>233,140</u>
 Total Liabilities	 <u>599,457</u>

Fund Equity:

Fund Balance	
Unreserved	
Undesignated	<u>1,176,171</u>
 Total Fund Equity	 <u>1,176,171</u>

Total Liabilities and Fund Equity	<u><u>\$ 1,775,628</u></u>
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Luce-Mackinac-Alger-Schoolcraft District Health Department

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2006

Total Governmental Fund Balance	\$ 1,176,171
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	124,378
Under modified accrual, revenue is recognized when amounts are available and measurable in the current period, however under full accrual revenues for services are recognized when earned.	343,027
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	
Compensated Absences	(266,952)
	<hr/>
Net Assets of Governmental Activities	<u><u>\$ 1,376,624</u></u>

Luce-Mackinac-Alger-Schoolcraft District Health Department**Statement of Revenues, Expenditures,
and Changes in Fund Balance
For the Year Ended September 30, 2006**

	General Operating Fund
Revenues:	
Intergovernmental	
Federal/State	\$ 1,882,585
Local	45,523
Charges for Services	4,416,890
Interest and Rents	12,049
Other	168,323
Total Revenues	6,525,370
Expenditures:	
Current	
Salaries and Wages	3,325,220
Fringes	920,369
Supplies and Materials	479,112
Training	19,946
Contractual	593,038
Communications	134,679
Travel	405,738
Space	360,725
Miscellaneous	362,604
Total Expenditures	6,601,431
Excess of Revenues Over (Under) Expenditures	(76,061)
Other Financing Sources:	
County Appropriations	54,837
Cigarette Tax	16,650
Total Other Financing Sources	71,487
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(4,574)
Fund Balance - Beginning of Year	1,180,745
Fund Balance - End of Year	\$ 1,176,171

Luce-Mackinac-Alger-Schoolcraft District Health Department

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended September 30, 2006

Net Change in Fund Balance - Total Governmental Funds	\$ (4,574)
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Amount reported for governmental activities in the statements are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$21,462) exceeded capital outlay (\$14,160) in the current period.	(7,302)
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Compensated Absences recognized as an expense.	(15,731)
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Deferred Revenues recognized as earned income.	3,243
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Cost Settlement Receivable recognized as earned income.	(33,577)
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Governmental funds report lease proceeds as other financing sources and principal payments as expenditures. This is the amount of principal payments during fiscal 2006.	<u>5,041</u>
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Net Assets of Governmental Activities	<u><u>\$ (52,900)</u></u>
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Notes to Financial Statements

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Luce-Mackinac-Alger-Schoolcraft District Health Department, (LMAS) conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

The Luce-Mackinac-Alger-Schoolcraft District Health Department is a Discretely Presented Component Unit of the County of Luce, Michigan, the purpose of which is to provide limited health services to the residents of Luce, Mackinac, Alger, and Schoolcraft Counties. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, revenues, and expenditures. Each County appoints two members, which are Commissioners, to the Board of Health.

Basis of Presentation**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the government-wide statements) present information for the Department as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Department and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to be presented as program revenues are general revenues. This includes interest and all County appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Department.

FUND FINANCIAL STATEMENTS

The Department uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Department's individual major fund.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Basis of Presentation (Continued)

The major fund of the Department is:

Special Revenue Fund – This fund is used to account for all financial resources of the Department, which are restricted to expenditures for specified health related purposes.

Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Department before it has legal claim to them, such as when grant monies are received and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Department reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities – defined as expected to be received within sixty days of year end. Deferred revenues also arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Receivables and Deferred Revenue

Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The Department has recognized the revenue related to charges for services at the time the services are performed and billed to the extent such amounts are estimated to be received. Contractual adjustments by third-party payers are treated as a reduction to revenues.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building improvements	15-20 years
Furniture and equipment	5-10 years

Compensated Absences

The LMAS District Health Department accrues vested or accumulated sick and vacation leave when earned by the employee.

Deferred Revenue

The LMAS District Health Department reports deferred revenue on its statement of net assets governmental funds balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the LMAS District Health Department before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Cash and Investments

Investments are reported at fair value, based on quoted market prices. All deposits are carried at cost. Cash and equivalents are considered to be cash on hand, demand deposit, and short-term investments with maturities of three months or less.

Prepaid Items

Payments made to vendors for insurance and rent that will benefit future periods are recorded as prepaid items. All other payments made to vendors for services that will benefit future periods are recorded as expenditures. These payments do not have a material effect on the financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**Annual Budget**

The LMAS District Health Department adopts an annual budget each year for expenditures applicable to the Special Revenue Funds. The operating budget includes proposed expenditures and the means of financing them is stated on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgets lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH:

The balance sheet accounts and types of cash items are presented below:

Cash and equivalents	- unrestricted	\$	187,138	Petty cash	\$	440
				Demand deposits -		
				savings and checking		<u>186,698</u>
	TOTALS	\$	<u>187,138</u>		\$	<u>187,138</u>

With respect to the demand deposits, \$159,740 of the \$187,698 listed above is held with the County Treasurer and pooled with the cash of several other funds. The remaining \$27,958 of demand deposits have a bank balance of \$27,958, which is insured by the Federal Deposit Insurance Corporation (FDIC) under regulation 330.8.

Interest rate risk. The Health Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Health Department has no investment policy that would further limit its investment choices.

Custodial credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Health Department's deposits may not be returned. State law does not require and the Health Department does not have a policy for custodial credit risk. As of year end, \$159,740 of the Health Department's bank balance of \$159,740 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE C - INVESTMENTS:

Statutory Authority

Michigan law (Public Act 20 of 1943, as amended) authorizes the Luce-Mackinac-Alger-Schoolcraft District Health Department to deposit and invest in one or more of the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- (c) Commercial paper rated at the time of purchase within the two highest classification established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in a.
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (h) Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The District Health Department deposits are in accordance with Statutory Authority.

NOTE D - DEFINED BENEFIT PENSION PLAN:

Plan Description - The LMAS District Health Department contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (msa 5.333 (A); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

All full-time employees of the LMAS District Health Department are eligible to participate in the System. Benefits currently vested after ten years of service. LMAS employees listed after February 1997 who retire at or after age 60 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 1.7 percent times the member's 5 year final average compensation. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and County ordinance.

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall not be less than 25% of the member's final average compensation.

If an active employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2005.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the District Health Department's personnel policy, which requires employees to contribute -0- percent to the plan. The District Health Department is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2005 is as follows:

General	2.37%
Employee 2/97	7.45%

Luce-Mackinac-Alger-Schoolcraft District Health Department

Notes to Financial Statements
September 30, 2006

NOTE D - DEFINED BENEFIT PENSION PLAN: (Continued)

Annual Pension Cost – During the year ended September 30, 2006, the District Health Department's contributions totaling \$173,810 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2005. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31, 2005 is as follows:

	2003	2004	2005
Actuarial Value of Assets	\$ 6,113,081	\$ 6,387,158	\$ 6,716,767
Actuarial Accrued Liability	5,823,673	6,004,879	6,547,577
Unfunded AAL	(289,408)	(382,279)	(169,190)
Funded Ratio	105%	106%	103%
Covered Payroll	2,344,678	2,481,348	2,705,760
UAAL as a Percentage of Covered Payroll	0%	0%	0%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 580	100%	0%
2004	43,144	100%	0%
2005	125,648	100%	0%

NOTE E - CAPITAL ASSETS:

A summary of capital assets is as follows:

	Beginning Balance	Increases	Adjustments /Decreases	Ending Balance
<i>Capital assets being depreciated:</i>				
Furniture & equipment	\$ 266,765	\$ 7,632	\$ -	\$ 274,397
Building improvements	168,635	6,528	-	175,163
Subtotal	435,400	14,160	-	449,560

Luce-Mackinac-Alger-Schoolcraft District Health Department

Notes to Financial Statements
September 30, 2006

NOTE E - CAPITAL ASSETS: (Continued)

	Beginning Balance	Increases	Adjustments /Decreases	Ending Balance
<i>Less accumulated depreciation:</i>				
Furniture & equipment	249,354	10,807	-	260,161
Building improvements	<u>54,366</u>	<u>10,655</u>	<u>-</u>	<u>65,021</u>
Subtotal	<u>303,720</u>	<u>21,462</u>	<u>-</u>	<u>325,182</u>
Net Capital Assets Being Depreciated	<u>\$ 131,680</u>	<u>\$ (7,302)</u>	<u>\$ -</u>	<u>\$ 124,378</u>
Depreciation Expense:				
Health and Welfare			<u>\$ 21,462</u>	

NOTE F - ACCOUNTS RECEIVABLE:

The composition of the District Health Department's accounts receivable balance as reported on the balance sheet is summarized as follows:

	Gross Accounts Receivable 09/30/06	Credit Allowance	Net Accounts Receivable 09/30/06
Home Health:			
Medicare PPS	\$ 873,869	\$ (3,232)	\$ 870,637
Private Pay	35,392	(3,394)	31,998
Medicaid	27,408	(962)	26,446
Blue Cross/Blue Shield	29,922	(2)	29,920
Other	<u>135,340</u>	<u>(619)</u>	<u>134,721</u>
Sub-total	<u>1,101,931</u>	<u>(8,209)</u>	<u>1,093,722</u>
Environmental Health	11,267	(789)	10,478
Personal & Family Health	75,895	(1,688)	74,207
Substance Abuse	<u>7,412</u>	<u>-</u>	<u>7,412</u>
TOTALS	<u>\$ 1,196,505</u>	<u>\$ (10,686)</u>	<u>\$ 1,185,819</u>

For the government wide statement of net assets there was an adjustment of \$112,661 for the cost report settlement adjusting the accounts receivable balance to \$1,298,480.

NOTE G - COMMITMENTS AND CONTINGENCIES:

The District Health Department has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District Health Department. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the District Health Department at September 30, 2006.

Medicare - District Health services rendered to Medicare program beneficiaries are charged at prospectively determined rates per episode. Certain district health services are paid based on a cost reimbursement methodology. The District Health Department reports such activity through the submission of its annual cost reports, which are subject to audit by the Medicare fiscal intermediary. The District Health Department's classification of clients under the Medicare program and the appropriateness of their admission and visits are subject to a review by Medicare.

Medicaid - District Health services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per visit. The District Health Department reports such activity through the submission of its annual cost reports which are subject to audit by the Medicaid fiscal intermediary. The District Health Department's classification of clients under the Medicaid program and the appropriateness of their admission and visits are subject to a review by Medicare.

Risk Management - The District Health Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District Health Department was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The LMAS District Health Department joined together with other governmental entities and created a public entity risk pool currently operating as a common risk management and insurance program. The District Health Department pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial insurance.

The LMAS District Health Department continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District Health Department is unable to provide an estimate of the amounts of additional assessments.

Luce-Mackinac-Alger-Schoolcraft District Health Department**Notes to Financial Statements
September 30, 2006****NOTE H - COMPENSATED ABSENCES:**

The District Health Department has an accrued liability for accumulated vested vacation benefits payable and a contingent liability for accumulated sick leave benefits of its employees. As of September 30, 2006, the accumulated vacation and sick leave benefits were as follows:

	Account Balance 10/01/05	Additions	Deletions	Account Balance 09/30/06
Vacation	\$ 152,559	\$ 15,967	\$ -	\$ 168,526
Sick	98,662	-	236	98,426
TOTAL	\$ 251,221	\$ 15,967	\$ 236	\$ 266,952

Vacation and Sick Leave Policy - Vacations are earned in varying amounts depending on the number of years of service and may be accumulated up to a maximum of 30 days.

Sick leave is paid at fifty percent of the employee's unused sick leave, up to a maximum of 480 hours, upon retirement, separation, or death after ten years of service. Payment shall be made at the employee's current rate of pay.

NOTE I - LEASE COMMITMENTS:

The District Health Department currently leases space for four units under signed, noncancelable, lease agreements.

Future annual obligations of the four leases are summarized below:

Year	Premises			
	St. Ignace Mackinac County	Newberry Luce County	Alger County	Manistique Schoolcraft County
2007	\$ 27,219	\$ 91,200	\$ 61,440	\$ 52,149
2008	27,219	91,200	61,440	13,037
2009	27,219	91,200	61,440	-
2010	27,219	91,200	61,440	-
2011	24,950	60,800	61,440	-
2012-2015	-	-	245,760	-
	This lease ends Aug. 2011	This lease ends May 2011	This lease ends Sept. 2015	This lease ends Dec. 2007

NOTE J - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The federal expenditures of the Department are included with the schedule of expenditures of federal awards of Luce County, Michigan.

Required Supplementary Information

Luce-Mackinac-Alger-Schoolcraft District Health Department

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Intergovernmental				
Federal/State	\$ 1,655,433	\$ 1,878,962	\$ 1,882,585	\$ 3,623
Local	39,261	33,150	45,523	12,373
Charges for Services	4,436,470	4,356,835	4,416,890	60,055
Interest and Rents	13,400	11,500	12,049	549
Other	179,017	174,222	168,323	(5,899)
Total Revenues	6,323,581	6,454,669	6,525,370	70,701
Expenditures:				
Current:				
Salaries and Wages	3,453,755	3,373,755	3,325,220	48,535
Fringes	967,202	967,203	920,369	46,834
Supplies and Materials	310,625	447,000	479,112	(32,112)
Training	12,175	22,175	19,946	2,229
Contractual	491,425	601,425	593,038	8,387
Communications	139,071	139,072	134,679	4,393
Travel	428,223	428,223	405,738	22,485
Space	386,525	336,525	360,725	(24,200)
Miscellaneous	366,909	366,909	362,604	4,305
Total Expenditures	6,555,910	6,682,287	6,601,431	80,856
Excess Revenues Over (Under) Expenditures	(232,329)	(227,618)	(76,061)	151,557
Other Financing Sources:				
County Appropriations	56,200	50,337	54,837	4,500
Cigarette Tax	15,500	16,650	16,650	-
Total Other Financing Sources	71,700	66,987	71,487	4,500
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(160,629)	(160,631)	(4,574)	156,057
Fund Balance - Beginning of Year	1,180,745	1,180,745	1,180,745	-
Fund Balance - End of Year	<u>\$ 1,020,116</u>	<u>\$ 1,020,114</u>	<u>\$ 1,176,171</u>	<u>\$ 156,057</u>

Other Supplementary Information

Luce-Mackinac-Alger-Schoolcraft District Health Department

Statement of Revenues, By Program - Budget and Actual For the Year Ended September 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local Appropriations	\$ 54,837	\$ 54,837	\$ -
Administrative Overhead	118,383	112,186	(6,197)
Other Administrative Support	12,500	11,913	(587)
Cigarette Tax	12,150	16,650	4,500
Bioterrorism	212,688	211,321	(1,367)
Campgrounds	14,525	14,530	5
Beaches	10,649	10,600	(49)
Public/Spa Pools	9,410	9,415	5
Food Protection	239,699	239,381	(318)
Onsite Sewage	193,203	189,266	(3,937)
Private Groundwater	152,064	150,255	(1,809)
Type II Groundwater	50,998	48,605	(2,393)
Erosion Control	17,000	16,920	(80)
Other Environmental Health	-	8,743	8,743
Gen Comm Diseases	52,900	52,999	99
Immunization Clinics	280,245	282,060	1,815
Immunization Action Plan	10,827	10,827	-
Sexually Trans Diseases	8,875	8,989	114
Family Planning Services	193,624	195,601	1,977
MCH Child Health	26,213	26,213	-
Maternal Support Services	127,020	127,080	60
Infant Support Services	109,768	110,323	555
Childrens Special Health Care	20,110	22,960	2,850
Part H & At Risk Programs	39,609	43,062	3,453
Hearing Screening	3,631	4,452	821
Vision Screening	5,657	4,965	(692)
Breast/Cervical Cancer Program	84,488	84,140	(348)
WIC Food Coupon Program	134,829	134,829	-
EPSDT Screening	94,504	95,032	528
Maternal & Child Outreach	-	9,746	9,746
Community Projects	-	8,462	8,462
Tobacco Prevention	24,400	24,526	126
SIG Grant	22,800	20,914	(1,886)
Certified Home Health Services	3,314,100	3,363,899	49,799
Noncertified Home Health Services	102,950	106,646	3,696
Hospice Services	168,100	168,160	60
Addiction Treatment Services	258,050	259,269	1,219
Addiction Prevention Services	120,700	117,293	(3,407)
Corrections Programs	220,150	219,788	(362)
TOTAL REVENUES	\$ 6,521,656	\$ 6,596,857	\$ 75,201

Luce-Mackinac-Alger-Schoolcraft District Health Department

Statement of Expenditures, By Program - Budget and Actual For the Year Ended September 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES:			
Administrative Overhead	\$ 118,383	\$ 116,687	\$ 1,696
Other Administrative Overhead	12,500	12,661	(161)
Bioterrorism	233,272	224,610	8,662
Radon Testing	-	2,160	(2,160)
Campgrounds	12,924	14,777	(1,853)
Beaches	12,117	11,047	1,070
Public/Spa Pools	7,950	9,563	(1,613)
Food Protection	248,247	239,494	8,753
Onsite Sewage	212,055	210,523	1,532
Private Groundwater	149,457	153,253	(3,796)
Type II Groundwater	63,012	62,410	602
Erosion Control	17,924	16,080	1,844
Other Environmental Health	-	5,843	(5,843)
Gen Comm Disease	63,504	70,096	(6,592)
Immunization Clinics	279,428	282,368	(2,940)
Immunization Action Plan	20,392	14,857	5,535
Sexually Trans Diseases	11,125	10,748	377
AIDS Prevention	-	22	(22)
Mat/Infant Health Advocacy	-	95	(95)
Family Planning Services	201,094	198,992	2,102
MCH Child Health	34,984	34,749	235
Maternal Support Services	169,142	158,257	10,885
Infant Support Services	134,354	125,323	9,031
Childrens Special Health Care	27,232	25,386	1,846
Part H & At Risk Programs	45,659	42,738	2,921
Hearing Screening	6,865	6,313	552
Vision Screening	6,851	6,081	770
Breast/Cervical Cancer Program	103,090	104,611	(1,521)
WIC Food Coupon Program	202,378	197,636	4,742
EPSDT Screening	106,953	97,695	9,258
Maternal & Child Outreach	13,339	16,659	(3,320)
General Nursing Programs	-	83	(83)
Community Projects	-	8,640	(8,640)
Tobacco Reduction	24,125	24,593	(468)
SIG Grant	22,649	20,916	1,733
Certified Home Health Services	3,066,984	3,063,506	3,478
Noncertified Home Health	113,398	114,790	(1,392)
Hospice Services	174,565	152,230	22,335
Addiction Treatment Services	406,067	387,927	18,140
Addiction Prevention Services	119,359	117,428	1,931
Corrections Program	240,909	239,584	1,325
TOTAL EXPENDITURES	<u>\$ 6,682,287</u>	<u>\$ 6,601,431</u>	<u>\$ 80,856</u>

Luce-Mackinac-Alger-Schoolcraft District Health Department**Health Department Programs
Statement of Revenues and Expenditures
Budget and Actual
For the Year Ended September 30, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fees and Collections	\$ 737,760	\$ 747,105	\$ 9,345
Federal/State Funding non MDCH	448,284	460,512	12,228
State Funding - MDCH CPBC	535,949	559,008	23,059
Local Public Health Operations	317,179	311,499	(5,680)
Local Funds	11,075	12,883	1,808
Miscellaneous Revenues	42,289	45,832	3,543
Total Revenues	2,092,536	2,136,839	44,303
EXPENDITURES:			
Health and Welfare:			
Salaries and wages	1,097,311	1,085,229	12,082
Fringe benefits	314,578	295,670	18,908
Supplies	216,024	218,615	(2,591)
Training	5,580	5,952	(372)
Contractual	34,850	47,480	(12,630)
Communications	65,154	60,385	4,769
Travel	127,985	124,979	3,006
Space costs	4,350	4,147	203
Administrative overhead costs	478,412	485,759	(7,347)
Other	39,103	38,847	256
Total Expenditures	2,383,347	2,367,063	16,284
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ (290,811)	(230,224)	\$ 60,587
Required Departmental Transfers:			
Local MOE Required by MDCH		51,347	
Additional Local Funds Expended		178,877	
Total Transfers		230,224	
Net Operations After Transfers		\$ -	

Luce-Mackinac-Alger-Schoolcraft District Health Department**Home Health Programs
Statement of Revenues and Expenditures
Budget and Actual
For the Year Ended September 30, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fees and collections	\$ 3,577,375	\$ 3,630,780	\$ 53,405
Local Funds	7,775	7,926	151
Total Revenues	3,585,150	3,638,706	53,556
EXPENDITURES:			
Health and Welfare:			
Salaries and wages	1,408,325	1,378,604	29,721
Fringe benefits	403,739	386,885	16,854
Supplies	85,979	101,420	(15,441)
Training	8,475	8,393	82
Contractual	420,100	404,128	15,972
Communications	43,495	56,730	(13,235)
Travel	205,300	202,738	2,562
Space costs	48,000	48,082	(82)
Administrative overhead costs	614,009	621,042	(7,033)
Other	117,525	122,504	(4,979)
Total Expenditures	3,354,947	3,330,526	24,421
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 230,203</u>	308,180	<u>\$ 77,977</u>
Fund Balance - October 1, 2005		<u>1,165,014</u>	
Fund Balance - September 30, 2006		<u>\$ 1,473,194</u>	

Luce-Mackinac-Alger-Schoolcraft District Health Department

Community Health Programs Statement of Revenues and Expenditures Budget and Actual For the Year Ended September 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fees and collections	\$ 41,700	\$ 43,004	\$ 1,304
Federal/State Funding non MDCH	236,350	235,760	(590)
State Funding - MDCH CPBC	24,000	-	(24,000)
State Funding - MDCH non CPBC	317,200	315,806	(1,394)
Local funds	550	11,244	10,694
Miscellaneous Revenues	26,300	19,912	(6,388)
Total Revenues	646,100	625,726	(20,374)
EXPENDITURES:			
Salaries and wages	409,795	390,080	19,715
Fringe benefits	117,480	105,453	12,027
Supplies and materials	14,375	14,612	(237)
Training	4,200	4,183	17
Contractual	400	5,786	(5,386)
Communications	12,045	7,823	4,222
Travel	63,075	60,966	2,109
Other	13,075	11,277	1,798
Administrative overhead costs	178,665	174,314	4,351
Total Expenditures	813,110	774,494	38,616
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (167,010)</u>	(148,768)	<u>\$ 18,242</u>
Required Departmental Transfers:			
Additional Local Funds Expended		148,768	
Net Operations After Transfers		<u>\$ -</u>	

Luce-Mackinac-Alger-Schoolcraft District Health Department

Administration Statement of Revenues and Expenditures Budget and Actual For the Year Ended September 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Fees and Collections	\$ -	\$ (3,999)	\$ (3,999)
Local Funds	41,900	42,169	269
Miscellaneous Revenues	105,633	102,579	(3,054)
Total Revenues	147,533	140,749	(6,784)
Expenditures:			
Salaries and wages	458,325	471,307	(12,982)
Fringe benefits	131,408	132,361	(953)
Supplies and materials	130,622	144,465	(13,843)
Training	3,920	1,418	2,502
Contractual	146,075	135,644	10,431
Communications	18,377	9,741	8,636
Travel	31,863	17,055	14,808
Space	284,175	308,496	(24,321)
Other	197,204	189,976	7,228
Administrative overhead costs	(1,271,086)	(1,281,115)	10,029
Total Expenditures	130,883	129,348	1,535
EXCESS REVENUES OVER (UNDER) EXPENDITURES	16,650	11,401	(5,249)
Other Financing Sources:			
Appropriations:			
Luce	10,000	10,000	-
Mackinac	18,337	22,837	4,500
Alger	12,000	12,000	-
Schoolcraft	10,000	10,000	-
Total Other Financing Sources	50,337	54,837	4,500
Excess Revenues and Other Financing Sources Over Expenditures	<u>\$ 66,987</u>	66,238	<u>\$ (749)</u>
Required Departmental Transfers:			
Local MOE Required by MDCH		(51,347)	
Additional Local Funds Expended		<u>(327,645)</u>	
Total Transfers		<u>(378,992)</u>	
Net Operations After Transfers		(312,754)	
Fund Balance - October 1, 2005		<u>15,731</u>	
Fund Balance - September 30, 2006		<u><u>\$ (297,023)</u></u>	

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Health
Luce-Mackinac-Alger-Schoolcraft District Health Department
Newberry, MI 49868

We have audited the financial statements of the governmental activities and major fund of the Luce-Mackinac-Alger-Schoolcraft District Health Department (a component unit of Luce County, Michigan), as of and for the year ended September 30, 2006, which collectively comprise the Luce-Mackinac-Alger-Schoolcraft District Health Department's basic financial statements and have issued our report thereon, dated January 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Luce-Mackinac-Alger-Schoolcraft District Health Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Luce-Mackinac-Alger-Schoolcraft District Health Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

We noted other matters involving the internal control over financial reporting, which we have reported to management of the Luce-Mackinac-Alger-Schoolcraft District Health Department in a separate letter dated January 25, 2007.

Conclusion

This information is intended solely for the use of the Board of Health and management, and federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 25, 2007



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN & WISCONSIN**

REPORT TO MANAGEMENT

Members of the Board of
Luce-Mackinac-Alger-Schoolcraft
District Health Department
Newberry, MI 49868

We have audited the financial statements of Luce-Mackinac-Alger-Schoolcraft District Health Department, Michigan for the year ended September 30, 2006, and have issued our report thereon dated January 25, 2007. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit we considered the internal control of the LMAS District Health Department. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of LMAS District Health Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the LMAS District Health Department are described in Note A. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2005. We noted no transactions entered into by the LMAS District Health Department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the allowance for uncollectible accounts receivable is an estimate. It is based on specific historical collection results and analysis of aged accounts. Cost settlements are also estimates based on preliminary cost report calculations. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the LMAS District Health Department's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the LMAS District Health Department, either individually or in the aggregate, indicate matters that could have a significant effect on the LMAS District Health Department's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the LMAS District Health Department's financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the LMAS District Health Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and recommendations

Check Disbursing (Prior Year)

During our review of testing, it was noted that one employee was reimbursed \$70.00 too much for prescription reimbursement. It is recommended employees total their reimbursement request and that the total be recalculated prior to disbursing a check.

Status: Corrected.

Payroll (Prior Year)

It was noted during payroll testing that one employee's I-9 form was not signed by a representative of LMAS District Health Department. All Employee forms should be completed in their entirety and should be retained by the payroll clerk.

Status: Corrected.

Federal Vaccines (Prior Year)

During the course of the year federally funded vaccines are supplied through the State of Michigan. An equal amount should be recorded on the general ledger for revenues and expenditures. The value should also be reflected in the budget.

Status: Corrected.

Payroll Certifications

OMB Circular A-87 attachment B11(h) requires support for all salaries and wages charged to federal grants be documented for co-funded and 100% funded staff. Employees who work 100% on a single federal grant activity are required to complete wage certifications at least semi-annually and should be signed by the employee and supervisor. The Health Department did not obtain the proper documentation for the staff individual that is charged 100% to the Bioterrorism Grant. It is recommended the Health Department obtain the appropriate wage certification for each federal grant in which salaries and wages are charged to the grant.

Status: The Health Department will obtain the required semi-annual wage certifications beginning in fiscal year 2007.

Chart of Accounts

The Health Department is not in compliance with the Uniform Chart of Accounts for District Health Departments. It is recommended the Health Department review the current chart of accounts and make necessary changes.

Status: The Health Department will make the necessary changes during fiscal year 2007.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the information and use of management, the Board of Health, federal and state awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 25, 2007